

Message Text

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ACTION FRB-02

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FM AMEMBASSY LUXEMBOURG

TO SECSTATE WASHDC IMMEDIATE 3944

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C O N F I D E N T I A L LUXEMBOURG 0367

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, LU

SUBJ: BANK SECRECY

REF: A) LUXEMBOURG 348, B) STATE 120929

1. DURING MEETING ON JUNE 10 WITH EUR/WE DIRECTOR VINE AND ECON OFFICER, ALBERT DONDELINGER, LUXEMBOURG BANK COMMISSIONER, ELABORATED UPON HIS CONCERN REGARDING FEDERAL RESERVE BOARD REQUESTS FOR CONFIDENTIAL BANKING INFORMATION ON THE OPERATIONS OF US BRANCHES AND AFFILIATES IN LUXEMBOURG (REF A). DONDELINGER ALSO DEPLORED THE TENDENCY OF US FINANCIAL AUTHORITIES TO IGNORE LUXEMBOURG WHEN EXCHANGING INFORMATION ON US FINANCIAL EVENTS THAT COULD AFFECT FOREIGN INTERESTS ALTHOUGH US DOES CONSULT HIS EUROPEAN COLLEAGUES.

2. DONDELINGER SAID HE HAD COMPLAINED ABOUT THIS REQUEST FOR FINANCIAL INFORMATION BECAUSE HE BELIEVED IT CONSTITUTED A NEW PRECEDENT AND CONTRAVENED THE UNDERSTANDING THAT HE HAD ACHIEVED WITH REPRESENTATIVES OF THE FEDERAL RESERVE SEVERAL YEARS AGO. THIS REQUEST, FOR THE NAMES OF THE FIVE LARGEST DEBTORS OF A LUXEMBOURG CONFIDENTIAL

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AFFILIATE OF A US BANK, HAD BEEN RECEIVED FROM THE PARENT

BANK IN THE US. THE INFORMATION WAS TO BE SUPPLIED DIRECTLY TO THE FED WITH A COPY TO THE PARENT BANK.

3. DONDELINGER THOUGHT THAT THIS REQUEST WAS RELATED TO THE PROBLEMS OF FRANKLIN NATIONAL BANK AND THAT, IF THIS ASSUMPTION WERE CORRECT, HE COULD UNDERSTAND THE FED'S CONCERN AND DESIRE TO OBTAIN ALL RELEVANT INFORMATION. IN SUCH CASES A "MUTUALITY OF INTERESTS EXISTS" (I.E., THE CONTINUED SOLVENCY OF A BANK) AND DONDELINGER EXPRESSED WILLINGNESS TO COOPERATE WITH US AUTHORITIES ON AN INFORMAL BASIS. DONDELINGER REPEATEDLY STRESSED HIS DESIRE FOR A BETTER COOPERATIVE ARRANGEMENT AND DISLIKE FOR HAGGLING ABOUT PROCEDURAL MATTERS, BUT HE INSISTED THAT SUCH REQUESTS SHOULD BE MADE THROUGH HIS OFFICE. HE REFERRED TO HIS EXCELLENT WORKING RELATIONS WITH EUROPEAN BANKING AUTHORITIES WHO, IN SIMILAR CASES, CALL HIM TO EXPLAIN THEIR NEED FOR SUCH INFORMATION. DONDELINGER HAS AN INFORMAL ARRANGEMENT OF THIS NATURE WITH THE SEC WHICH HE TERMS EXCELLENT AND HE WOULD LIKE A SIMILAR ONE WITH THE FED AND THE COMPTROLLER OF THE CURRENCY.

4. DONDELINGER WAS STILL UPSET AT BEING IGNORED BY THE FED DURING ITS CONSULTATIONS WITH FOREIGN BANK AUTHORITIES ON DRAFT LEGISLATION AFFECTING US BRANCHES OF FOREIGN BANKS. ALTHOUGH THERE ARE NO LUXEMBOURG BANKS NOW ESTABLISHED IN THE US, DONDELINGER POINTED OUT THAT LUXEMBOURG IS FAST BECOMING THE SECOND LARGEST EUROPEAN FINANCIAL CENTER AND LUXEMBOURG BANKS ALREADY HAVE ESTABLISHED BRANCHES IN LONDON, THE MIDEAST AND SINGAPORE. THESE CONSIDERATIONS, PLUS THE POSSIBILITY THAT LUXEMBOURG BANKS COULD EXPAND THEIR OPERATIONS INTO THE US MARKET, RENDER ANY LEGISLATION AFFECTING THE US OPERATIONS OF FOREIGN BANKS OF POTENTIAL INTEREST TO GOL AUTHORITIES.

5. COMMENT: DONDELINGER ADMITS TO A SMALL COUNTRY SENSITIVITY ABOUT BEING EXCLUDED FROM DEVELOPMENTS IN THE INTERNATIONAL FINANCIAL SPHERE. HIS STAFF IS SMALL AND INCAPABLE OF KEEPING CLOSE SURVEILLANCE OF DEVELOPMENTS IN THIS RAPIDLY EXPANDING FINANCIAL CENTER (FROM 23 BANKS IN 1969 TO 80 TODAY). WE BELIEVE HE THEREFORE GENUINELY
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DESIRES A BETTER WORKING RELATIONSHIP WITH US FINANCIAL AUTHORITIES THAT WOULD HELP HIM TO AVOID ANY POTENTIAL BANK FAILURES OR FINANCIAL SCANDALS.

6. ACTION REQUESTED:

IN THESE CIRCUMSTANCES, I RECOMMEND THAT THE RESPONSIBLE OFFICIALS OF THE FEDERAL RESERVE TAKE THE INITIATIVE

TO CONTACT DONDELINGER DURING HIS VISIT TO WASHINGTON
JUNE 11-13 FOR THE G-20 MEETING TO EXPLORE POSSIBLE
AVENUES OF COOPERATION. SUCH AN INITIATIVE WOULD SOOTH
DONDELINGER'S FEELINGS, WOULD HELP PRESERVE THE GOL
WELCOME FOR US BANKS, AND WOULD AID THE FED IN OBTAINING
INFORMATION NECESSARY FOR ITS INVESTIGATIONS.

THIS MESSAGE WAS DRAFTED AFTER THE DEPARTURE OF EUR/WE
DIRECTOR VINE FROM LUXEMBOURG. FARKAS

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